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LOUSIANA HEALTH & REHAB CENTER, INC.

FINANCIAL STATEMENTS

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1-24-07

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**GORDON A. GAGLIANO, CPA
(A Professional Accounting Corporation)
10761 Perkins Road, Suite D
Baton Rouge, LA 70810**

Independent Auditor's Report

To the Board of Directors of Louisiana Health & Rehab Center, Inc.

We have audited the accompanying statement of financial position of Louisiana Health & Rehab Center, Inc. (a Louisiana non-profit corporation) as of June 30, 2006 and 2005, and the related statements of activities and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

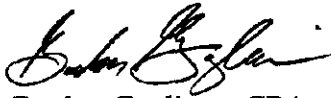
We conducted our audit in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Health & Rehab Center, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2006 on our consideration of Louisiana Health & Rehab Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

GORDON A. GAGLIANO, CPA
(A Professional Accounting Corporation)
10761 Perkins Road, Suite D
Baton Rouge, LA 70810

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Louisiana Health & Rehab Center, Inc. taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statement of the Louisiana Health & Rehab Center, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by US Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is also not a required part of the financial statements of the Louisiana Health & Rehab Center, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Gordon Gagliano, CPA
Baton Rouge, LA

December 14, 2006

Louisiana Health and Rehab Center, Inc.
Statement of Financial Position
Years Ended June 30, 2006 and June 30, 2005

	<u>Jun 30, 2006</u>	<u>Jun 30, 2005</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash & Cash Equivalents	\$ 671,160	\$ 499,997
Accounts Receivable	200,352	216,859
Prepaid Insurance	<u>26,138</u>	<u>23,968</u>
Total Current Assets	897,650	740,824
<u>Fixed Assets</u>		
Building	437,482	437,482
Accum. Depreciation	(33,217)	(22,114)
Furniture & Fixtures	39,508	29,742
Accum. Depreciation	(13,299)	(8,626)
Leasehold Improvements	162,207	41,890
Accum. Depreciation	(22,176)	(16,508)
Office Equipment/Computers	38,837	26,415
Accum. Depreciation	(18,159)	(11,677)
Vehicles	132,898	123,998
Accum. Depreciation	(91,969)	(67,996)
Land	<u>70,000</u>	<u>70,000</u>
Net Fixed Assets	702,112	602,606
<u>Other Assets</u>		
Banc One Securities(A.F.S.)	-	517,378
Pramerica Securities (A.F.S.)	600,128	32,849
Due from Client	-	240
Deposits-Security	872	872
Due from employee	132	-
Due from LHRO	<u>27,301</u>	<u>28,824</u>
Total Other Assets	<u>628,433</u>	<u>580,163</u>
TOTAL ASSETS	<u>\$ 2,228,195</u>	<u>\$ 1,923,593</u>

Louisiana Health and Rehab Center, Inc.
Statement of Financial Position
Years Ended June 30, 2006 and June 30, 2005

	<u>Jun 30, 2006</u>	<u>Jun 30, 2005</u>
<u>LIABILITIES & NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 34,902	\$ 5,942
Current Maturities of L.T. Debt	31,581	33,576
Due to Clients	5,408	1,532
Garnishment Payable	579	1,032
Progressive-Insurance Payable	14,714	13,538
N/P-Wells Fargo	2,291	-
N/P-Hibernia Bank	-	4,889
Accrued Taxes	3,330	3,362
Accrued Wages	43,530	43,960
Health Insurance Payable	3,002	-
401k Retirement Payable	2,197	2,408
SUTA Tax Payable	3,143	4,635
SWH Tax Payable	2,017	2,033
	<hr/>	<hr/>
Total Current Liabilities	146,694	116,907
<u>Long Term Liabilities</u>		
N/P-Chase Bank(Land)	18,707	26,610
N/P-Chase Bank(Bldg)	46,414	74,312
N/P-Chase Bank(Lafy. Bldg)	195,827	204,886
N/P-Wells Fargo	-	5,768
Current Maturity of LT Debt	(31,581)	(33,576)
Total Long-Term Liabilities	<hr/> 229,367	<hr/> 278,000
	<hr/>	<hr/>
Total Liabilities	376,061	394,907
<u>NET ASSETS</u>		
Unrestricted Net Assets	1,528,686	1,050,177
Net Income	323,448	478,509
	<hr/>	<hr/>
Common Stock (-0- shares Authorized & Issued)	-	-
	<hr/>	<hr/>
Total Net Assets	1,852,134	1,528,686
	<hr/>	<hr/>
TOTAL LIABILITIES & NET ASSETS	\$ 2,228,195	\$ 1,923,593
	<hr/>	<hr/>

Louisiana Health and Rehab Center, Inc.
Statement of Activities
Years Ended June 30, 2006 and June 30, 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<u>UNRESRTICTED NET ASSETS</u>		
<u>Unrestricted Revenues & Gains</u>		
Program Services	\$ 2,229,355	\$ 2,098,372
Other Services/Reimbursed Expenses	29,502	787
Interest Income	9,775	1,530
Dividend Income	8,709	22,712
Capital Gains	28,229	-
Unrealized Gain on Securities	2,877	3,376
Rental Income	39,418	36,383
Contributions	756	2,000
Total Unrestricted Revenues & Gains	<u>2,348,621</u>	<u>2,165,160</u>
Net Assets Released From Restrictions:	<u>-</u>	<u>-</u>
Total Unrestricted Revenues & Gains & Other Support	2,348,621	2,165,160
 <u>Expenses</u>		
Program Services	1,581,763	1,377,795
Supporting Services (Management & General)	<u>443,410</u>	<u>308,856</u>
Total Expenses	<u>2,025,173</u>	<u>1,686,651</u>
INCREASE IN UNRESTRICTED NET ASSETS	323,448	478,509
 <u>TEMPORARILY RESTRICTED NET ASSETS</u>		
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>-</u>	<u>-</u>
 <u>PERMANENTLY RESTRICTED NET ASSETS</u>		
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>-</u>	<u>-</u>
INCREASE IN NET ASSETS	323,448	478,509
NET ASSETS, BEGINNING OF YEAR	<u>1,528,686</u>	<u>1,050,177</u>
NET ASSETS, END OF YEAR	<u>\$ 1,852,134</u>	<u>\$ 1,528,686</u>

LOUISIANA HEALTH & REHAB CENTER, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 and 2005

	<u>UNRESTRICTED</u>	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$323,448	\$478,509
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized loss/(gain)	4,746	(3,376)
Depreciation and amortization	51,898	45,353
(Increase) decrease in operating assets:		
Accounts Receivable	16,506	(42,109)
Prepaid Expenses	(2,169)	(2,444)
Other Receivables	108	(127)
Increase (decrease) in operating liabilities:		
Accounts Payable	30,136	(16,730)
Due to Clients	3,875	85
Accrued Wages	(430)	19,918
Accrued Tax	(32)	(5,801)
Accrued Retirement Benefits	(209)	2,408
Accrued Payroll Liabilities	1,494	-0-
Garnishment Payable	(453)	1,032
Contribution restricted for long-term purpose	-0-	-0-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$428,918	\$476,718
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase/Earnings on Investments	\$ (54,644)	\$ (51,765)
Proceeds from Property and Equipment Loans	0	212,000
Purchase of Property and Equipment	(151,405)	(291,982)
Payments on Notes Payable	(53,228)	(61,466)
NET CASH USED BY INVESTING ACTIVITIES	\$(259,277)	\$(193,213)

See Accountant's Audit Report

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LOUISIANA HEALTH & REHAB CENTER, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 and 2005

	<u>UNRESTRICTED</u>	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net due from LHRO, Inc.	<u>\$1,522</u>	<u>\$6,877</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>\$1,522</u>	<u>\$6,877</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	171,163	290,382
BEGINNING CASH AND CASH EQUIVALENTS	<u>499,997</u>	<u>209,615</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$671,160</u>	<u>\$499,997</u>
Supplemental Data:		
Interest Paid	<u>\$21,332</u>	<u>\$15,242</u>

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

1. Summary of Significant Accounting Policies

Operations

The company provides therapeutic psychiatric programs designed to eliminate inappropriate and maladaptive behaviors. The company began providing services on 7/1/00. Services provided are designed to help persons with developmental disabilities and severe and persistent behavioral problems reach their maximum functioning level in the community. All programs are operated in southern Louisiana and are wholly funded by Louisiana Government agencies.

Revenue and Cost Recognition

Revenue is recognized when services are provided. Expenses are recognized as incurred. The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Property and Equipment

Property and equipment are recorded at cost. Expenditures are charged against earnings as incurred. Major expenditures exceeding \$1,000 for renewals and betterments are capitalized. When items are retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any resulting gain or loss is credited to or charged against income.

Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (5 to 7 years for furniture, equipment, and vehicles; 40 years for buildings), using the straight-line method.

Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets at that time. Currently, there are no restricted assets as of 6/30/06 and 6/30/05.

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

1. Summary of Significant Accounting Policies (continued):

Income Taxes

The organization is a not-for-profit organization that is exempt from income taxes under section 501 (c) (3) of the Internal Revenue code and classified by the Internal Revenue Service as other than a private foundation. There was no unrelated business income for the years ending.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is based on prior experience and management's assessment of the collectibility of accounts receivable. Due to the nature of the receivables, all amounts are considered to be collectible and, therefore, an allowance for uncollectible accounts have not been established.

Cash and Cash Equivalents

Cash and cash equivalents consist of items having maturities of three months or less from the date of acquisition.

Concentration of Credit Risk

The Company maintains its cash balances in a financial institution located in Baton Rouge, Louisiana. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of June 30, 2006 and 2005, the Company had uninsured cash balances of \$568,536 and \$398,465 respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

1. Summary of Significant Accounting Policies (continued):

Financial Statement Presentation

The organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Organization does not use unrestricted as of 6/30/06 and 6/30/05.

Contributions

The organization has also adopted SFAS No 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. The company received \$756 and \$2,000 of unrestricted contributions for years ending 6/30/06 and 6/30/05, respectively.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. No contributions were received for years ending 6/30/06 and 6/30/05, or were any donor promises made.

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

1. Summary of Significant Accounting Policies (continued)

Contributed Services

During the years ended June 30, 2006 and 2005, the value of contributed services meeting the requirements for recognition in the financial statements was -0- and has not been recorded.

Allocation of Administrative Expenses

General and administrative overhead expenses are prorated based upon the percentage of each program's direct expenses to total direct expenses. At 6/30/06 and 6/30/05, these expenses totaled \$443,410 and \$287,151, respectively.

2. Related Party Transactions

During the year ended June 30, 2006, the Company leased premises from Temple Properties, LLC, of which the company's executive director is a member. The amount of rental expense incurred by the Company under this lease agreement totaled \$32,400 and \$32,400 for the years ended June 30, 2006 and 2005, respectively.

During the year ended June 30, 2006, the Company received rents from Louisiana Health & Rehabilitation Options, Inc., who's President and 100% owner is the executive director of LHRC, Inc. The total rent payments received for years ending 6/30/06 and 6/30/05 were \$25,582 and \$24,702, respectively.

During the year ended June 30, 2006, the Company leased premises to Harmony Center, of which the Company's executive director serves in the same capacity for Harmony Center. The amount of rental income for this Lafayette property rental is \$14,400 for year ended 6/30/06. The agent which handles the Company's Primerica securities is the son of the sole shareholder of the Company.

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

3. Operating Leases

The Company leases the following facility under the following lease agreement:

<u>Lessor</u>	<u>Terms</u>
Temple Properties, LLC (Reality House) N. Blvd. BR, LA	One year term, commencing 7/1/05, terminating 6/30/06, \$2,000 monthly rental. The lease has been renewed for a one year period commencing 7/1/06.
Temple Properties, LLC (Reality House – Expansion) N. Blvd. BR, LA	One year term, commencing 7/1/05, terminating 6/30/06, \$700 monthly rental. The lease has been renewed for a one year period commencing 7/1/06.
Agape Outreach Ministry (Awakenings) Jackson, LA	Two year term, commencing 8/1/04, terminating 12/31/05, \$3000 monthly rental.
Johnson Management Group (Awakenings) Brookstown Baton Rouge, LA	One year term, commencing 1/1/06, terminating 6/30/06. \$3,000 monthly rental. The lease has been renewed for a one year period commencing on 7/1/06.
Johnson Management Group (ATR) Wooddale Blvd. Baton Rouge, LA	Nine month term, commencing 10/1/05, terminating 7/31/06. \$1,599.13 monthly rental. The lease has been renewed for a eleven month period commencing on 8/1/06.

Future Annual Payments:

	<u>6/30/07</u>
Temple Properties	\$32,400
Johnson Management Group	<u>53,590</u>
Total	<u>\$85,990</u>

*There are no leases extending beyond 6/30/07.

Total rent expense under the above-described leases for the years ended June 30, 2006 and June 30, 2005 were \$89,164 and \$56,400, respectively.

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

4. Program Revenues/Concentrations

The Company provides care to clients in the following therapeutic program which is funded by several State of Louisiana agencies through the Department of Health and Hospitals. The Reality House program accounts for a significant percentage of the company's revenue, as listed below in brackets:

<u>Programs</u>	<u>Year Ended</u>		<u>Recognized Support</u>	
	<u>6/30/06</u>		<u>6/30/05</u>	
Reality House/Expansion	\$ 701,786	(32%)	\$ 720,324	(34%)
Children's Choice	153,262		134,872	
Awakening	462,375	(21%)	524,792	(25%)
BR Waiver	530,599	(24%)	399,148	(19%)
Teen Pregnancy (NO)	28,445		104,173	
Capital Area	52,800		37,428	
ART	223,275		4,524	
Teen Pregnancy (BR)	34,372		79,570	
NO Waiver	<u>42,440</u>		<u>93,541</u>	
Total Program Revenue	<u>\$2,229,354</u>		<u>\$2,098,372</u>	

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

5. Summary of Grants/Contract Funding

The company's programs were primarily funded through the following grants and contracts for the year ended 6/30/06:

<u>CFDA#</u>	<u>Grant/ Contract #</u>	<u>Contract Period</u>	<u>Contract Total</u>	<u>Recognized Support @ 6/30/06</u>
93.558	* 272	7/1/05 - 6/30/06	\$529,980	\$509,126
93.959	* 272	7/1/05 - 6/30/06	<u>\$192,720</u> \$722,700	<u>\$192,720</u> \$701,846
N/A	* 9506 (RESPITE) * 9505 (SIL) * 9507 (PCA)	7/1/05 - 6/30/06	\$ 18,124 (per client)	\$530,599
N/A	** 4502091 (Medicaid)		Cost Reimbursement	\$153,262
N/A	**** 4448 (SIL) **** 3922 (PAC)	5/1/05 - 10/31/06	\$ 18,124 (per client)	\$ 42,440
93.558	*** 615882	9/1/05 - 2/28/06	\$ 69,720	\$ 34,372
93.558	*** 615881	10/1/04 - 8/31/05	\$ 93,940	\$ 28,445
	TIPS			
N/A	**** 020124698	7/1/04 - 6/30/06	\$ 113 (Per Child/Per Day)	\$462,375
93.959	* 298	7/1/05 - 6/30/06	\$ 48,000	\$ 52,800

Funding Sources:

- * Capital Area Human Services
- ** Department of Health & Hospitals
- *** Department of Education
- **** Department of Social Services

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AMD 2006

6. Accounts Receivable – Grants & Contracts

As of 6/30/06 and 6/30/05, accounts receivable from grants and contracts was composed of:

	<u>2006</u>	<u>2005</u>
Office of Family Support	\$ 8,792	-0-
Capital Area Human Services	71,568	73,377
Dept. of Health & Hospitals	39,430	4,524
Office of Social Services	-0-	37,110
Office of Community Development	15,521	9,855
Department of Education	2,318	31,508
Office of Community Support	<u>62,726</u>	<u>60,485</u>
Totals:	<u>\$200,355</u>	<u>\$216,859</u>

7. Short Term Debt

	<u>6/30/06</u>	<u>6/30/05</u>
<u>N/P Ford Credit</u>		
12.5% annual interest rate; monthly payment of \$641; maturing on 2/15/06. 2001 Ford E350 vehicle serves as collateral on the loan.	\$ -0-	\$ 4,889
<u>N/P Progressive</u>		
Nine monthly installments of \$2,352 with a \$5 monthly installment fee; maturing on 12/17/05; no collateral on debt; financing for auto insurance	\$14,714	\$13,538
<u>N/P Wells Fargo</u>		
9.0% projected interest rate on this capitalized lease; monthly payment of \$436; maturing on 8/19/06.	<u>\$ 2,291</u>	<u>\$ -0-</u>
Total	<u>\$17,005</u>	<u>\$18,427</u>

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

8. Long Term Debt

	<u>6/30/06</u>	<u>6/30/05</u>
<u>N/P Chase Bank</u>		
6.5% annual interest rate; monthly payment of \$1,858; maturing on 8/20/09; building on Webb Street in Lafayette, LA serves as collateral on the loan.	\$195,827	\$204,886
<u>N/P Chase Bank</u>		
6.5% annual interest rate; monthly payment of \$1,332; maturing on 11/19/06, at which time the balance will be due. Company building and property @ 1033 N. Lobdell serve as collateral on the note.	\$ 46,414	\$ 74,312
<u>N/P Wells Fargo Financial</u>		
9.0% projected interest rate on this capitalized lease; monthly payment of \$436; maturing on 8/19/06. Lease does not have option to purchase	\$ -0-	\$ 5,769
<u>N/P Chase Bank</u>		
5.5% annual interest rate monthly payment of \$766, maturing on 8/8/08. A lot on North Lobdell serves as collateral on the loan	\$ 18,707	\$ 26,610
Totals:	<u>\$260,948</u>	<u>\$311,577</u>
Current Maturity of Debt	<u>(31,581)</u>	<u>(33,576)</u>
Total	<u>\$229,367</u>	<u>\$278,001</u>

Subsequent Debt Maturity

6/30/08	\$ 33,616
6/30/09	\$ 27,971
6/30/10	<u>\$167,780</u>
Total	<u>\$229,367</u>

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

9. Retirement Plan

The Company has adopted a Simple IRA plan under Section 408 (P) of the Internal Revenue Code, effective 7/1/02. The Company has chosen a 2% matching option.

	<u>6/30/05</u>
Employee Deferrals	<u>\$5,338</u>
Employer Contributions	<u>\$4,083</u>
Matching IRA Liability Due	<u>\$ -0-</u>

Due to the company's Simple Plan exceeding 100 participants during the year ended 6/30/05, a 401k retirement plan was adopted, effective 1/1/05. The company elected a 3% matching for the year ended 6/30/06 and 6/30/05, respectively.

	<u>6/30/05</u>	<u>6/30/06</u>
Employee Deferrals	<u>\$ 1,315</u>	<u>\$ -0-</u>
Employer Contributions	<u>\$ 945</u>	<u>\$12,424</u>
Matching IRA Liability Due	<u>\$ 945</u>	<u>\$ 973</u>
Employee 401K Liability Due	<u>\$ -0-</u>	<u>\$ 1,226</u>

LOUISIANA HEALTH AND REHAB CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

10. Investments (Available for Sale)

The company has invested funds with Banc One Securities and Primerica, which consist of 100% of mutual funds. The Banc One investments had an unrealized loss of \$3,052 @ 6/30/05. The account has been closed @ 6/30/06. The Primerica investments have a \$1,120 unrealized gain as of 6/30/05 and a net \$4,746 unrealized loss @ 6/30/06. These investments are to serve as a source of working capital, as well as any further construction needs. The fair market value of the securities are as follows:

	<u>6/30/06</u>	<u>6/30/05</u>
<u>Banc One</u>		
- Franklin Income Fund	\$ -0-	\$ 84,238
- Franklin Govt. Sec. (Class A)	\$ -0-	\$215,087
- Franklin Floating Fund (Class A)	\$ -0-	\$218,053
Totals	\$ -0-	\$517,378
<u>Primerica (21340 4840)</u>		
- LMP Capital & Income B	\$ <u>54,920</u>	\$ <u>32,849</u>
<u>Primerica (213605 687)</u>		
- VK US Mrtg Fd A	\$ 76,369	\$ -0-
- VK Equity & Income A	\$108,777	\$ -0-
- VK Growth & Income A	\$ 81,545	\$ -0-
- VK Real Estate Sec A	\$ 90,083	\$ -0-
- VK Comstock A	\$109,915	\$ -0-
- VK Emerging Gwth A	\$ <u>78,518</u>	\$ -0-
	\$ <u>545,207</u>	\$ -0-

11. Subsequent Events

Due to Hurricane Katrina the New Orleans Program (NOPTR) had to close its doors for the month of September 2005. All of the programs capital assets were casualty losses, resulting programs capital assets were casualty losses, resulting a \$7,420 loss in September 30, 2005. The short term loss of the Company's (2) minor programs and the \$7,420 loss of the capital assets is not material, and in my opinion, does not effect these audited financial statements. New Orleans Teen Pregnancy Program was funded at 10/01/2005 and has been appealed by the State due to review, and currently is not up and running.

SUPPLEMENTAL INFORMATION

Louisiana Health & Louisiana Health Rehab Center, Inc.
Statement of Functional Expenses
Year Ending June 30, 2006

Ordinary Income/Expense	Administration	ATR	Awakening	Baton Rouge	BR Teen	Capital Area	CHILDREN	Divine	New Orleans	(TANF)	Transitional	TOTAL
				Waiver	Pregnancy		CHOICE	Intervention	Waiver	(Reality House)		
Insurance												
506 - Worker's Compensation Expt	5,964.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,964.00
507 - Liability Insurance	12,781.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,600.00	0.00	14,381.79
507.10 - Building	3,913.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3,913.00
508 - Auto Insurance Expense	3,495.34	3,202.43	7,012.52	0.00	817.50	0.00	0.00	0.00	0.00	9,133.06	0.00	23,660.87
509 - Equipment Insurance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	47.70	0.00	47.70
Insurance - Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Insurance	26,154.13	3,202.43	7,012.52	0.00	817.50	0.00	0.00	0.00	0.00	9,180.76	0.00	47,967.36
Interest Expense												
508.10 - Loan Interest	20,921.21	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,120.26	0.00	22,041.49
Total Interest Expense	20,921.21	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,120.26	0.00	22,041.49
Payroll Expenses												
502 - Wages												
500 - Directors	5,175.00	0.00	10,250.91	16,189.02	0.00	0.00	0.00	9,230.76	0.00	11,980.00	0.00	42,365.69
501 - Administrator	31,137.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	31,137.00
502 - Wages - Other	157,603.70	64,014.92	204,954.33	286,305.88	18,762.68	33,911.44	89,174.80	16,969.75	31,492.12	154,278.54	1,055.00	1,072,703.05
Total 502 - Wages	183,565.70	64,014.92	215,215.24	302,494.90	18,762.68	33,911.44	89,174.80	26,200.51	31,492.12	166,165.54	1,055.00	1,146,225.75
503.10 - FICA Matching Tax	13,816.51	4,897.43	16,484.24	23,301.60	1,439.85	2,594.50	6,859.84	2,004.98	2,409.20	12,710.27	1,084.56	87,633.65
503.20 - SUTA Tax	699.61	960.71	2,289.66	3,275.60	249.25	338.52	1,451.39	366.57	453.25	2,083.56	133.74	12,300.86
503.30 - Federal/State Taxes	48.12	0.00	0.00	226.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00	178.32
Payroll Expenses - Other	1,101.10	0.00	14.00	0.00	0.00	35.25	0.00	0.00	0.00	-561.63	0.00	589.72
Total Payroll Expenses	199,134.80	69,883.06	233,983.14	329,298.54	20,450.58	36,866.71	97,486.03	28,571.94	34,354.57	180,390.74	1,136.00	1,246,948.31
Rent												
511 - Building	7,620.83	3,119.26	43,951.57	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	54,700.66
512 - Equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	297.11	0.00	297.11
Rent - Other	-1,998.68	0.00	0.00	0.00	0.00	0.00	0.00	2,960.00	0.00	32,400.00	1,100.00	34,463.32
Total Rent	5,622.15	3,119.26	43,951.57	0.00	0.00	0.00	0.00	2,960.00	0.00	32,697.11	1,100.00	89,461.09
Repairs												
539.10 - Vehicle Repair	2,751.27	2,785.19	1,300.03	0.00	0.00	0.00	0.00	0.00	0.00	3,516.68	0.00	10,353.17
539.20 - Building Repairs	935.73	0.00	3,228.99	0.00	0.00	0.00	0.00	0.00	0.00	833.60	0.00	4,998.32
539.40 - Equipment Repairs	1,264.50	0.00	3.90	0.00	0.00	0.00	0.00	0.00	0.00	2,654.50	0.00	3,923.00
Total Repairs	4,951.50	2,785.19	4,532.92	0.00	0.00	0.00	0.00	0.00	0.00	7,004.78	0.00	19,274.49
Supplies												
542 - Food	65.84	961.09	10,863.16	39.98	1,842.73	1,494.47	0.00	0.00	0.00	0.00	0.00	15,287.25
546 - Household Supplies	2,039.54	0.00	2,430.31	0.00	0.00	0.00	0.00	0.00	0.00	4,006.70	0.00	10,502.84
547 - Marketing	0.00	0.00	0.00	0.00	273.78	0.00	0.00	0.00	0.00	0.00	0.00	273.78
550 - Office	0.00	0.00	0.00	0.00	824.15	0.00	0.00	0.00	0.00	0.00	0.00	824.15
Supplies - Other	1,890.05	821.86	3,665.70	81.45	239.58	149.11	0.00	0.00	0.00	1,516.49	0.00	10,899.77
Total Supplies	3,995.43	1,782.95	18,978.17	121.41	3,180.24	1,643.58	0.00	0.00	0.00	5,525.19	0.00	37,787.59
Travel & Ent												
558 - Travel	4,125.93	300.36	709.24	1,353.00	227.09	517.47	138.60	81.80	812.56	82.00	0.00	8,358.05
559.10 - Gasoline	551.56	6,090.15	4,672.56	58.00	743.92	5,434.51	0.00	5.00	0.00	5,763.91	0.00	23,328.65
559.20 - Mileage	9.94	21.56	65.24	276.36	0.00	0.00	-19.50	177.28	0.00	5.04	0.00	644.78
559.40 - Meals	390.20	229.54	0.00	21.79	0.00	104.97	0.00	0.00	0.00	0.00	0.00	746.59
Travel & Ent - Other	23.94	0.00	120.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	144.35
Total Travel & Ent	5,101.58	6,650.61	5,567.47	1,719.15	971.01	6,068.95	119.00	264.08	812.56	5,850.95	0.00	33,122.42

Louisiana Health & Louisiana Health Rehab Center, Inc.
Statement of Functional Expenses
Year Ending June 30, 2006

	Administration	ATR	Awaiting	Baton Rouge Waiver	BR Teen Pregnancy	Capital Area	CHILDREN CHOICE	Divine Intervention	New Orleans Waiver	(Realty House)	(TAMF)	Transitional	TOTAL
Utilities													
593.10 - Gas and Electric	14,946.35	667.50	13,776.26	0.00	0.00	0.00	0.00	0.00	0.00	15,696.05	0.00	239.64	45,530.83
593.20 - Water	1,231.69	30.23	1,690.94	0.00	0.00	0.00	0.00	0.00	0.00	3,711.36	0.00	34.43	6,698.05
Utilities - Other	1,752.92	0.00	4,154.33	0.00	0.00	0.00	0.00	0.00	0.00	1,394.58	1,438.00	0.00	8,730.83
Total Utilities	17,933.97	697.73	19,623.55	0.00	0.00	0.00	0.00	0.00	0.00	20,991.99	1,438.00	274.07	60,990.31
504 - Licenses/Other Taxes	205.00	247.00	965.62	600.00	0.00	0.00	0.00	0.00	0.00	1,600.00	0.00	0.00	3,617.62
510 - Employee benefits	4,888.95	220.03	626.67	2,515.91	0.00	94.30	0.00	80.00	0.00	3,998.37	0.00	0.00	12,424.23
510.20 - Retirement Benefits	22,725.91	1,111.46	12,343.28	13,808.97	0.00	272.77	852.52	1,252.23	0.00	16,780.17	0.00	0.00	72,331.83
510 - Employee benefits - Other	27,614.86	1,331.49	12,969.95	16,324.88	0.00	367.07	852.52	1,332.23	0.00	20,756.54	0.00	0.00	84,806.06
Total 510 - Employee benefits	11,634.30	0.00	3,850.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	15,484.42
512.10 - Lease-Equipment	1,351.80	0.00	320.13	119.74	0.00	0.00	0.00	0.00	0.00	231.40	0.00	39.86	2,062.73
520 - Advertising & Promotions	4,343.06	333.58	899.48	698.60	298.62	0.00	43.02	0.00	0.00	334.96	4,042.25	0.00	10,993.67
521 - Bank Service Charges	610.76	0.00	6.07	5.82	0.00	0.00	0.00	0.00	0.00	0.00	59.55	0.00	682.20
524 - Dues and Subscriptions	1,040.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,040.00
524.10 - Subscription	255.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	255.80
524.20 - Membership and Dues	878.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	90.00	0.00	0.00	968.90
525 - Annual Card Fees	385.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	385.00
530.60 - Maintenance, Bldg & Grounds	370.00	0.00	2,764.79	0.00	0.00	0.00	0.00	0.00	0.00	86.35	175.00	0.00	3,396.14
540 - Contract for Outside Services	15,979.85	-5,290.00	16,332.85	0.00	0.00	0.00	1,168.96	0.00	0.00	2,282.30	0.00	5,540.00	36,022.96
540.10 - Contract Labor	97.75	120.00	690.00	0.00	0.00	0.00	0.00	4,425.95	0.00	0.00	0.00	0.00	5,323.70
541 - Due to Client	0.00	0.00	0.00	-30.22	0.00	0.00	0.00	0.00	0.00	30.22	0.00	0.00	0.00
543 - Furniture Expense	0.00	0.00	2,135.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	872.00	3,007.01
544.10 - Laboratory and Drug Kit Supply	128.33	86.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	56.33	0.00	0.00	290.00
548 - Miscellaneous	-125.31	0.00	-161.60	0.00	0.00	0.00	0.00	0.00	100.00	97.00	0.00	0.00	-89.31
549 - Client Expense	0.00	2,300.41	14,515.00	-224.91	0.00	0.00	4,866.55	0.00	0.00	3,070.09	0.00	406.44	22,633.17
550.10 - Office Equipment	0.00	0.00	275.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	275.00
550.20 - Printing and Reproduction	0.00	0.00	1,298.90	0.00	273.78	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,572.68
550.30 - Office Supplies	11,091.41	802.81	3,554.00	459.57	3,638.72	829.22	0.00	203.39	66.71	1,075.14	553.36	2.00	22,356.33
550.40 - Petty Cash Expense	0.00	0.00	883.85	0.00	0.00	0.00	0.00	0.00	150.00	0.00	0.00	0.00	1,033.85
552 - Postage and Delivery	410.19	0.00	108.25	132.70	148.00	0.00	0.00	0.00	0.00	4.42	0.00	0.00	803.56
554 - Professional Fees	980.00	285.00	419.00	1,040.00	52.00	0.00	0.00	0.00	0.00	1,098.00	0.00	78.00	3,922.00
554.10 - Legal Fees	0.00	0.00	5,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00
554.20 - Accounting	7,500.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7,500.00
554.30 - Consulting	1,665.09	0.00	20,115.00	1,400.00	0.00	0.00	0.00	0.00	0.00	14,743.00	0.00	0.00	37,923.09
554.40 - Inspection Expense	11.44	23.00	183.00	0.00	0.00	0.00	0.00	0.00	0.00	55.00	0.00	0.00	272.44
554 - Professional Fees - Other	72.00	104.00	1,226.44	300.00	300.00	0.00	0.00	26.00	0.00	352.00	250.00	0.00	2,630.44
Total 554 - Professional Fees	10,228.53	412.00	26,943.44	2,740.00	352.00	0.00	0.00	26.00	0.00	19,218.00	250.00	76.00	57,247.97
556 - Recreation Expense	409.79	2,290.04	1,471.00	163.72	7,998.45	4,095.96	0.00	0.00	0.00	149.95	4,550.00	0.00	21,528.91
556.10 - Snacks & Refreshment	414.89	506.58	0.00	0.00	0.00	172.67	0.00	0.00	0.00	0.00	0.00	0.00	1,094.14
558 - Training Expense	374.00	14.00	409.00	267.00	15.00	160.00	10.00	0.00	0.00	19.00	0.00	0.00	1,268.00
559.50 - Conference	1,041.70	176.26	225.00	465.00	0.00	118.51	0.00	0.00	0.00	1,980.00	0.00	0.00	4,009.77
559.60 - Luncheon	149.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	149.58
560.10 - Equipment Expense	0.00	282.31	395.20	0.00	0.00	0.00	0.00	0.00	0.00	60.00	0.00	2,534.25	3,271.76
579 - Depreciation Expense	45,305.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	45,305.23
583 - Telephone	11,181.90	1,171.42	7,441.87	453.67	0.00	0.00	-183.66	-221.96	232.10	8,130.07	1,000.00	300.00	29,505.37
720 Unrealized Loss	7,623.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7,623.00
752 Rental Depreciation	6,993.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6,993.00
595 - Automobile Expense	0.00	0.00	0.00	0.00	0.00	28.75	0.00	0.00	0.00	0.00	0.00	0.00	28.75
597 - Program Incentives/Promotions	0.00	0.00	342.94	140.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	482.94

Louisiana Health & Louisiana Health Rehab Center, Inc.
Statement of Functional Expenses
Year Ending June 30, 2006

Administration	ATR	Awakening	Baton Rouge Waiver	BR Teen Pregnancy	Capital Area	CHILDREN CHOICE	Divine Intervention	New Orleans Waiver	(Reality House)	(TANF)	Transitional	TOTAL	
Totals	443,410.09	92,947.47	430,286.61	353,464.67	38,144.10	50,354.72	104,362.40	37,961.61	38,970.46	319,044.49	30,567.36	15,760.20	1,954,864.38
Administration Allocation	-443,410.09	27,267.68	126,231.75	103,691.77	11,190.20	14,772.39	30,816.43	11,018.32	11,432.63	93,506.97	8,967.44	4,623.52	-0.00
Total Expenses After Allocation	0.00	120,215.15	556,518.56	457,146.44	49,334.30	65,127.11	134,978.83	48,580.93	50,403.09	412,641.46	39,534.80	20,383.72	1,954,864.38

LOUISIANA HEALTH & REHAB CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
US Department of Health and Human Services:			
Pass-through programs from:			
State Department of Health and Hospitals:			
-Community Mental Health Services	93.958	(Medicaid) 4502091/(CC)	\$132,689
-Prevention and Treatment of Substance Abuse	93.959	298/(CapArea) 2SA1050/(RH) 2SA1050A/(RH)	559,023
-Office of Family Support (T.A.N.F.)	93.558	/(TANF) 615881 615882	38,903
Department of Social Services		0202124698/ (Awakenings)	614,857
Total Pass-through Programs			\$1,345,472
Total US Department of Health and Human Services			\$1,345,472
Total Expenditures of Federal Awards			\$1,345,472

**(See note #5 for Program Awards Received)

**GORDON A. GAGLIANO, CPA
(A Professional Accounting Corporation)
10761 Perkins Road, Suite D
Baton Rouge, LA 70810**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of Louisiana Health & Rehab Center, Inc.

We have audited the financial statements of Louisiana Health & Rehab Center, Inc. as of and for the years ended June 30, 2006 and 2005, have issued our report thereon dated December 14, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Louisiana Health & Rehab Center, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control of financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Compliance and Other Matters

As part of obtaining reasonable assurance whether Louisiana Health & Rehab, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are reported under Government Auditing Standards.

GORDON A. GAGLIANO, CPA
(A Professional Accounting Corporation)
10761 Perkins Road, Suite D
Baton Rouge, LA 70810

We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Louisiana Health & Rehab Center, Inc. in a separate letter dated December 14, 2006.

This report is intended solely for the information and use of the Board of Directors, management, and awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.



Gordon Gagliano, CPA
Baton Rouge, LA

December 14, 2006

**GORDON A. GAGLIANO, CPA
(A Professional Accounting Corporation)
10761 Perkins Road, Suite D
Baton Rouge, LA 70810**

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of Louisiana Health & Rehab Center, Inc.

Compliance

We have audited the compliance of Louisiana Health & Rehab Center, Inc. with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Louisiana Health & Rehab Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Louisiana Health & Rehab Center, Inc.'s management. Our responsibility is to express an opinion on Louisiana Health & Rehab Center, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Louisiana Health & Rehab Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Louisiana Health & Rehab Center, Inc.'s compliance with those requirements.

In our opinion, Louisiana Health & Rehab Center, Inc. complied, in all material respects,

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with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Louisiana Health & Rehab Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Louisiana Health & Rehab Center, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Louisiana Health & Rehab Center, Inc. as of and for the year ended June 30, 2006 and have issued our report thereon dated December 14, 2006, presented on page 23. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and on our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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This report is intended solely for the information and use of the audit committee, management, Federal Audit Clearinghouse, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Gordon Gagliano, CPA
Baton Rouge, LA

December 14, 2006

GORDON A. GAGLIANO, CPA
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SUMMARY OF AUDITORS RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Louisiana Health & Rehab Center, Inc.
2. No reportable condition or questioned cost disclosed during the audit.
3. No instances of noncompliance material to the financial statements of Louisiana Health & Rehab Center, Inc., which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No reportable conditions disclosed during the audit of internal control over major federal award programs were reported.
5. The auditor's report on compliance for the major federal award programs for Louisiana Health & Rehab Center, Inc. expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:
Reality House (#93.959) and Awakenings.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Louisiana Health & Rehab Center, Inc. qualified as a low-risk auditee.

**LOUISIANA HEALTH & REHAB CENTER, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006**

Findings (X1):

No findings noted in the June 30, 2005 audit.